

Message Text

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ACTION EUR-12

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E.O. 11652: N/A
TAGS: EFIN, ETRD, TU
SUBJECT: EFFECT OF NEW ECONOMIC POLICIES ON TURKISH BUSINESS

1. SUMMARY: BUSINESS REACTION TO RECENT GOT ECONOMIC POLICY DEVELOPMENTS IS FAVORABLE IN GENERAL, BUT STRONGLY CRITICAL IN REGARD TO CERTAIN SPECIFIC POINTS. MOST RESPONSIBLE BUSINESSMEN ACCEPT THE NEED FOR MEASURES WHICH WOULD REDUCE DOMESTIC DEMAND, CUT IMPORTS IN A RATIONAL MANNER, AND LOWER THE VALUE OF THE TURKISH LIRA TO A MORE REALISTIC LEVEL. HOWEVER, FASHION IN WHICH GOT APPARENTLY INTENDS TO IMPLEMENT NEW MEASURES CREATES IMPRESSION THAT BUSINESS IS EXPECTED TO BEAR THE BRUNT OF AUSTERITY MEASURES. U.S. AND OTHER FOREIGN INVESTORS ALSO WILL SUFFER. MOST IMMEDIATE CONCERN IS CENTRAL BANK'S DEMAND THAT IMPORTERS AND INDUSTRIALISTS DEPOSIT DIFFERENCE CREATED BY DEVALUATION IN LIRA PRICE OF IMPORTS FOR WHICH FOREIGN EXCHANGE PAYMENT TRANSFERS ARE PENDING.

2. MOST BUSINESSMEN RECOGNIZE THAT LIRA WAS GREATLY OVERVALUED PRIOR TO MARCH 1 DEVALUATION, AND SOME EVEN CONSIDER THE 30 TO
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37 PERCENT ADJUSTMENT TOO LITTLE. BUT IMPORTERS SEE CENTRAL BANK POLICY RE INCREASED LOCAL CURRENCY COVER FOR PRIOR IMPORTS AS PUNITIVE AND IN MANY CASES, IMPOSSIBLE. CENTRAL BANK HAS NOT TRANSFERRED FOREIGN PAYMENT FOR MOST PRIVATE SECTOR IMPORTS SINCE FEBRUARY, 1977. CONSERVATIVE ESTIMATE OF TOTAL AMOUNT WHICH HAS BEEN IMPORTED ON OPEN ACCOUNT, CLEARED FROM CUSTOMS, AND LARGELY SOLD OR CONSUMED AS INDUSTRIAL INPUTS IS 1.5 BILLION

DOLLARS. OTHER PENDING TRANSFERS RAISE TOTAL TO NEAR 3 BILLION DOLLARS. THUS REESTABLISHING LIRA EQUIVALENT TO FOREIGN CURRENCIES REQUESTED FOR TRANSFER WHICH MUST BE PAID IN THREE EQUAL MONTHLY INSTALLMENTS APPROACH ONE BILLION DOLLARS EQUIVALENT IN TURKISH LIRAS, OR ROUGHLY 12 PERCENT OF THE MONEY SUPPLY AS OF DECEMBER, 1977. INDIVIDUAL CASES INCLUDE KOC HOLDING, WHICH WOULD OWE 1.2 BILLION LIRAS OR 48 MILLION DOLLARS, AND MOBIL WHICH IS REQUIRED TO RAISE DEPOSITS FOR UNPAID CRUDE OIL IMPORTS, AN ADDITIONAL 640 MILLION LIRAS OR 25 MILLION DOLLARS. COMPANIES UNDERSTANDABLY FEEL THAT SINCE CENTRAL BANK FAILED TO PAY FOR APPROVED IMPORTS DESPITE PRIOR PAYMENT IN FULL BY THE IMPORTER, THEY SHOULD NOT BE HELD LIABLE FOR EXCHANGE RATE DIFFERENCE.

3. GOT MAY INTEND THIS POLICY AS HANDY MEANS OF SHARPLY REDUCING DOMESTIC LIQUIDITY WITHOUT IMPOSING A DIRECT BURDEN ON WORKERS OR ON AGRICULTURAL SECTOR. HOWEVER, NEW INTEREST RATE STRUCTURE WHICH REDUCES BANKS' SPREADS ON LOANS, PLUS NEW RESERVE REQUIREMENTS WILL PRECLUDE THE ALREADY LOANED-UP COMMERCIAL BANKING SYSTEM FROM COMPENSATING FOR MOST OF THE LIQUIDITY DRAIN, AND MANY IF NOT MOST COMPANIES WITH HIGH IMPORT REQUIREMENTS WILL BE UNABLE TO BORROW SUFFICIENT MONEY TO COVER THIS LIABILITY. FOREIGN INVESTORS, AMONG THE MOST IMPORT INTENSIVE, LEGALLY MAY NOT BORROW DOMESTICALLY AND FACE QUESTION OF WHETHER OR NOT TO IMPORT FOREIGN EXCHANGE.

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4. COMMENT: WE UNDERSTAND THAT A NUMBER OF INFLUENTIAL BUSINESSMEN INTEND TO PROTEST THIS POLICY AND CHALLENGE IT IN COURTS IF NECESSARY. IF POLICY IS NOT REVISED TO GIVE AT LEAST PARTIAL RELIEF, THE IMPACT ON PRIVATE INDUSTRY, PARTICULARLY ON FOREIGN INVESTORS, WILL BE SEVERE.
HOUGHTON

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